

Message Text

SECRET

PAGE 01 SEOUL 03134 01 OF 02 170444Z

12/67

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03 NSAE-00

NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20 USIA-15 ACDA-19

MC-02 AID-20 IGA-02 OMB-01 EB-11 COME-00 TRSE-00

SAJ-01 IO-14 DRC-01 /160 W

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R 160908Z MAY 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 3819

SECDEF WASHDC

INFO CINCPAC

S E C R E T SECTION 1 OF 2 SEOUL 3134/1

NOFORN

C O R R E C T E D C O P Y (CORRECT GARBLED TEXT THROUGHOUT)

E.O. 11652: GDS

TAGS: MASS KS

SUBJECT: ROK DEFENSE PROCUREMENT: IMPLICATIONS FOR US POLICY

REF: A. SEOUL 3053 B. SEOUL 3015

JOINT EMBASSY/COMUSK MESSAGE

BEGIN SUMMARY: THE ROKG IS MOVING IN THE DIRECTION OF SIGNIFICANT DEFENSE PROCUREMENT ESSENTIALLY THROUGH ITS OWN RESOURCES. IN THIS SITUATION THE ROKG DOES AND WILL CONTINUE TO SEEK OUR BEST ADVICE ON MILITARY PROCUREMENT MATTERS BUT WILL ALSO SET ITS OWN PRIORITIES AND ACT ON THEM. END SUMMARY.

1. REF A. GIVES THE BACKGROUND ON RECENT ROKG ACTIONS TO BEGIN SIGNIFICANT DEFENSE PROCUREMENT ESSENTIALLY THROUGH ITS OWN RESOURCES. REF B. REPORTS CURRENT ROKG
SECRET

SECRET

PAGE 02 SEOUL 03134 01 OF 02 170444Z

THINKING ON R&D AREA.

2. ROKG MOVEMENT IN THIS DIRECTION IS NOT UNEXPECTED AND IS ESSENTIALLY A HEALTHY DEVELOPMENT. THE ROKG CLEARLY HAS COME TO THE CONCLUSION THAT ANY LIKELY FUTURE MAP GRANT ASSISTANCE LEVELS WILL BE TOO LOW TO MEET ROK DEFENSE NEEDS. AND ROKG VIEWS GRANT ASSISTANCE AS INCREASINGLY PROBLEMATIC GIVEN CONGRESSIONAL ATTITUDES. CONSEQUENTLY, UNDER THE PERSONAL DIRECTION OF PRESIDENT PARK, GOVERNMENT HAS BEGUN THE PROCESS OF PLANNING AND PROGRAMMING FOR ITS PROCUREMENT NEEDS IN THE MID-70S.

3. THESE ROKG ACTIONS DO NOT MEAN THAT ROKG HAS FORMALLY ABANDONED ITS EXPECTATIONS RE MOD PLAN OBJECTIVES. AND IT HOPES FOR SOME LEVEL OF US GRANT ASSISTANCE IN NEAR TERM. ROKG WILL CONTINUE TO PRESS US ON QUESTION OF UNFULFILLED MOD PLAN LEVELS IN HOPE OF EXACTING AS MUCH GRANT ASSISTANCE AS POSSIBLE. HOWEVER, ROKG HAS NO SERIOUS EXPECTATIONS THAT GRANT ASSISTANCE WOULD CONTINUE BEYOND MOD PLAN IN ANY EVENT. FURTHER, MND FULLY AWARE OF, AND HAS ACCEPTED, IMPLICATIONS OF SECDEF CLEMENT'S STATEMENT AT LAST SCM THAT FMS AS WELL AS GRANT ASSISTANCE WILL BE USED IN COMPLETING MOD PLAN. IN THIS SITUATION ROKG APPEARS TO BE MOVING REALISTICALLY AND QUICKLY TO TAKE UP POST-MOD PLAN PROCUREMENT BURDEN AS WELL AS TO MEET WHAT IT VIEWS AS ITS OWN HIGH PRIORITY DEFENSE NEEDS WHETHER THEY ARE IN MOD PLAN OR NOT.

4. FOR OUR PART, WE BELIEVE THAT IT IS INCUMBENT ON USG ALSO TO REALISTICALLY ASSESS FUTURE DIRECTION OF OUR MAP. IN OUR PARA CONTRIBUTION (SEOQNR JEAUELN COUNTRY TEAM POINTED OUT THAT: ROKG IS ICREASINGLY ABLE TO BEAR COSTS OF ITS OWN DEFENSE; ROKG IS COMPLJTCH AWARE OF DOWNWARD DIRECTION OF US GRANT ASSISTANCE; AND IT HAS ACCEPTED THAT PROCUREMENT OF MILITARY EQUIPMENT AND MATERIAL WILL BE ITS OWN RESPONSIBILITY. WE ALSO POINTED OUT THAT WE MUST ACCEPT THAT FORMER DOMINANT US ROLE IN DETERMINING ROK MILITARY REQUIREMENTS WILL INEVITABLY CHANGE, AND

SECRET

SECRET

PAGE 03 SEOUL 03134 01 OF 02 170444Z

THAT ROKG WILL INCREASINGLY EXPECT TO MAKE ITS OWN FINAL DETERMINATIONS.

5. GIVEN CURRENT ROKG ACTIONS, WE BELIEVE PROPOSED COURSE OF ACTIONS OUTLINED IN OUR PARA SUBMISSION CONTINUE TO REMAIN A VALID STATEMENT. AS OUTLINED IN THAT PAPER, WE BELIEVE THAT THE USG SHOULD:

A. CONTINUE TO MEET OUR MOD PLAN OBJECTIVES
BY A COMBINATION OF GRANT ASSISTANCE AND FMS WITH A
TARGET COMPLETION DATE OF FY 77.

B. CONTINUE TO TRANSFER DEFENSE COSTS TO THE
ROK BY USING INCREASED FMS CASH AND CREDIT FACILITIES.

C. PROJECT ADEQUATE FMS LEVELS TO MEET MAJOR
AGREED ROK PROCUREMENT REQUIREMENTS.

D. WORK TOWARD A SITUATION IN WHICH THE ROK
IS ABLE TO USE NORMAL COMMERCIAL CHANNELS FOR PRO-
CUREMENT AND, AS THE ROK MOVES TOWARDS COMMERCIAL
CREDIT PROCUREMENT, WORK TO ASSURE THAT US EQUIPMENT
AND MATERIAL RETAIN A MOST-FAVORED POSITION.

6. WITHIN THE POLICY FRAMEWORK OUTLINED ABOVE,
ESSENTIAL PROBLEM NOW FACING US IN MILITARY ASSISTANCE
FIELD IS NOT A BOOKKEEPING APPROACH TO MOD PLAN FUL-
FILLMENT. ROKG HAS INTERPRETED OUR PAST COMMENTS RE
MOD PLAN STRENGTH-OUT, AND INCREASING USE OF FMS TO
MEET MOD PLAN AS SIGNS THAT ORIGINAL MOD PLAN CONCEPT
IS IN EFFECT WITHERING AWAY. ROKG WOULD NOT WISH TO
PUBLICLY ABANDON MOD PLAN BUT, IT HAS NO SERIOUS
EXPECTATIONS THAT REQUISITE GRANT ASSISTANCE LEVELS
WILL BE FORTHCOMING. RATHER IT SEES ESSENTIAL PROBLEM
AS BEING THE AVAILABILITY OF A HIGH LEVEL OF FMS CREDIT IN THE
FY 75-80 PERIOD.
FROM ROKG POINT OF VIEW, ITS
CONCESSIONAL CREDIT NEEDS ARE BEYOND MOD PLAN LEVELS
AND INVOLVE MANY ITEMS NOT IN MOD PLAN.

7. CONSEQUENTLY, WE BELIEVE THAT IN THE MONTHS BEFORE
SECRET

SECRET

PAGE 04 SEOUL 03134 01 OF 02 170444Z

THE NEXT SCM IN SEPT, WASHINGTON AGENCIES MUST SERIOUSLY
CONSIDER PRESENTING ROKG WITH REALISTIC PICTURE OF
GRANT ASSISTANCE PROGRAM FUTURE. FURTHER, AND MORE
IMPORTANTLY, WE SHOULD FOCUS ON QUESTION OF FMS CREDIT
LEVELS OVER NEXT FEW YEARS TO ALLOW A NEEDED TRANSI-
TION FROM THE LARGE SCALE GRANT ASSISTANCE PROGRAMS
OF THE PAST TO A SITUATION IN WHICH ROK IS ABLE TO USE
NORMAL COMMERCIAL CHANNELS FOR PROCUREMENT.

8. THE FMS CREDIT LEVELS WHICH WE WOULD SEE IN THE
FY 75-78 PERIOD WOULD BE SIGNIFICANTLY ABOVE THE PRESENT
POM LEVELS. IF USG WERE IN A POSITION TO BE FORTH-
COMING ON THE FMS CREDIT ISSUE, BELIEVE THAT KOREANS
WOULD IMPLICITLY ACCEPT SITUATION IN WHICH MOD PLAN
REQUIREMENTS WOULD GRADUALLY BE ABSORBED IN COURSE OF

TIME IN AN EXPANDED FMS CREDIT PROGRAM WE WOULD IN
EFFECT HAVE A SMOOTH TRANSITION IN WHICH GRANT ASSISTANCE
ELEMENTS WOULD DISAPPEAR AND AT SOME POINT IN PROCESS
WE WOULD BE IN POSITION TO STATE THAT MOD PLAN
HAD BEEN SUBSTANTIALLY COMPLETED.

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PAGE 01 SEOUL 03134 02 OF 02 162256Z

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 3820

SECDEF WASHDC

INFO CINCPAC

S E C R E T SECTION 2 OF 2 SEOUL 3134/2

9. SPECIFICALLY WE RECOMMEND FOLLOWING APPROACH
ON KEY POLICY QUESTIONS:

A. MOD PLAN FUTURE: WITH REGARD TO MOD PLAN
FUTURE, BELIEVE WE SHOULD DEAL REALISTICALLY AND
HONESTLY WITH ROKG ON PROSPECTS. USG SHOULD USE FORTH-
COMING SCM TO POINT OUT TO KOREAN SIDE THAT WE WILL
CONTINUE TO DO BEST WE CAN TO MEET REMAINING MOD PLAN
OBJECTIVES. HOWEVER, GIVEN CONGRESSIONAL REALITIES,
WE CANNOT BE HOPEFUL ABOUT GRANT ASSISTANCE COMPONENT
AND THEREFORE WE AND ROKG WILL HAVE TO GIVE PRIMARY
EMPHASIS TO FMS CREDIT AND CASH PURCHASES FOR REMAINING
MOD PLAN HIGH PRIORITY ITEMS.

B. O&M QUESTION: WE ARE SCHEDULED TO BE OUT OF
GRANT ASSISTANCE FOR O&M BY FY 76. IN LIKELY EVENT
FY 74 GRANT ASSISTANCE IS SUBSTANTIALLY BELOW \$112

MILLION, WE MAY WELL ALREADY BE OUT OF O&M BUSINESS IN FY 74. GIVEN ROKG WILLINGNESS AND ABILITY TO CONSIDER MAJOR DEFENSE PROCUREMENT ITEMS OUT OF ITS OWN FUNDS, THERE IS NO JUSTIFICATION FOR CONTINUING GRANT O&M. THEREFORE, WE BELIEVE THAT WE SHOULD TELL ROKG NOW
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PAGE 02 SEOUL 03134 02 OF 02 162256Z

THAT THERE WILL BE NO SIGNIFICANT O&M GRANT ASSISTANCE IN FY 75 AND WHATEVER OUR EVENTUAL FY 74 GRANT ASSISTANCE LEVEL WE WOULD BE BETTER ADVISED TO USE IT FOR PROCUREMENT OF INVESTMENT ITEMS, NOT O&M. THIS WILL ALLOW MND TO REALISTICALLY PLAN ITS FUTURE O&M REQUIREMENTS. (IN VIEW OF LEAD TIME REQUIRED TO EFFECTIVELY ARRANGE AND IMPLEMENT SSA & FMS CASH CASES FOR CRITICAL SUPPORT OF ESSENTIAL HIGH PRIORITY, WEAPONS SYSTEMS, SOME GRANT AID O&M SUPPORT MAY BE REQUIRED).

C. FMS CREDIT LEVELS: USG SHOULD ON PRIORITY BASIS ADDRESS QUESTION OF LIKELY FMS LEVELS AVAILABLE TO ROK IN COMING YEARS. IN OUR VIEW, IT IS IN OUR INTEREST TO PROVIDE EXPANDED FMS LEVELS NOT ONLY FOR SECURITY REASONS BUT ALSO TO ASSURE THAT, AS ROKG INCREASINGLY BEARS ITS OWN DEFENSE COSTS, US EQUIPMENT AND MATERIAL RETAIN A MOST-FAVORED POSITION IN KOREAN PROCUREMENT.

D. ROK THIRD-COUNTRY PROCUREMENT: AT PRESENT ROKG STILL ESSENTIALLY ORIENTED TO PROCUREMENT OF US EQUIPMENT AND MATERIALS. HOWEVER, AS ROKG INCREASINGLY MAKES ITS OWN DECISION IT IS ALREADY BEGINNING TO SHOP AROUND. THIRD-COUNTRY REPS ARE ALREADY QUIETLY BUT ACTIVELY TRYING TO MOVE IN ON WHAT THEY SEE AS A NEW MARKET. IN OUR VIEW, WE SHOULD CONTINUE TO TAKE A FIRM LINE THAT AS LONG AS THERE IS MAJOR USG CONCESSIONAL MAP PROGRAM HERE, ROKG MUST GIVE US EQUIPMENT HIGHEST PRIORITY. ROKG WILL UNDERSTAND THIS. AT SAME TIME WE DO EXPECT ROKG TO PRESS US FOR UNDERSTANDING AND APPROVAL OF LIMITED PROCUREMENT OF THIRD-COUNTRY ITEMS WHICH THEY BELIEVE ARE ESSENTIAL TO THEIR NEEDS AND WHICH ARE EITHER UNAVAILABLE IN US INVENTORIES OR IN THE ROK VIEW INADEQUATE. WE WILL HAVE TO DEAL WITH THESE ON A CASE-BY-CASE BASIS AS THEY ARISE (E.G. SWISS OERLIKON AA GUNS). HOWEVER, AS STATED ABOVE WE DO NOT BELIEVE USG SHOULD COUNTENANCE MAJOR ROK ARMS PURCHASES FROM THIRD-COUNTRIES WHILE WE ARE IN EFFECT STILL UNDERWRITING SIGNIFICANT PART OF THE ROK DEFENSE COSTS.

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PAGE 03 SEOUL 03134 02 OF 02 162256Z

10. BEYOND THE SPECIFIC CONSIDERATIONS NOTED ABOVE, WE BELIEVE IT IMPORTANT TO RECOGNIZE THAT OUR MILITARY ASSISTANCE RELATIONSHIP WITH KOREA IS ALREADY IN A PERIOD OF TRANSITION. THE ROKG IN ITS OWN WAY IS ATTEMPTING TO REACT REALISTICALLY TO WHAT IT SEES AS THE PHASE DOWN OF THE USG'S MASSIVE MILITARY ASSISTANCE PROGRAMS OF THE PAST. THIS REALIZATION HAS NOT LED THE ROKG TO PANIC OR TO UNDUE RECRIMINATIONS DIRECTED AGAINST US. IT HAS BEEN UNHAPPY WITH OUR PERFORMANCE IN PAST YEAR ON MANY MILITARY ASSISTANCE MATTERS AND HAS SAID SO. IN THE SCM WE CAN EXPECT SOME COMMENT ON ON-FULFILLMENT OF OUR PROMISES. AT SAME TIME, ROKG HAS NOT IGNORED THE TRENDS OF EVENTS AND IS NOT TRYING TO TURN CLOCK BACK.

11. FOR OUR PART THIS MEANS THAT WE MUST ACCEPT THAT THE ROKG INCREASINGLY WILL TELL US WHAT IT WANTS IN THE MILITARY PROCUREMENT FIELD. THE ROKG WILL CONTINUE TO ASK OUR ADVICE ON MILITARY PROCUREMENT MATTERS BUT IT WILL SET ITS OWN PRIORITIES AND ACT ON THEM. HOWEVER, THE ROKG IS IN THE PROCESS OF MOVING FROM A PAST DEPENDENT STATUS IN WHICH, IN EFFECT, IT ACCEPTED OUR DETERMINATIONS SINCE WE WERE PAYING THE FREIGHT TO A SITUATION IN WHICH IT SEES ITSELF AS BEARING ESSENTIALLY THE MAJOR COSTS OF ITS DEFENSE BY THE MID-70S.

12. AMBASSADOR HABIB HAS CLEARED THIS MESSAGE.
ERICSON

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Message Attributes

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